# Why Did South Korea Grow Rich, c.1960–1985?

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## Introduction

In a world which has increasingly been characterised by 'survival of the fittest', growth theories and modernization theories have risen to prominence. These include Rostow's Model, which prescribed a unilinear pattern/stages that countries could follow in order to achieve 'ideal' (Westernised) development and as a way of evolving from a state of 'backwardness'. Dependency theories, in stark contrast, have sought to give a more somber view of development – not of evolutionary incremental progress where societies eventually become homogenized – but as a process where the development of the core has simultaneously seen the underdevelopment of the periphery. Indeed, some nations have become rich only because some others have become poor.

Given such contrasting views of what the quest toward development may entail, South Korea has been seen as an enigma and its growth patterns have sought to defy any ordinary logic that an explanation is indeed warranted. Why did South Korea grow rich? With a mired history of colonial occupation by Japan, division of territory, occupation by U.S military forces and subsumption in the Korean War, it is obvious that the odds have not been stacked in South Korea's favour. Today, South Korea is a member of the Organisation for Economic Co-operation and Development (OECD) and has a Human Development Index (HDI) of 15. What is striking about the case of South Korea is that it did not conform to any pre-existing mode of development. This paper serves to illustrate that what happened in the period c.1960.- c.1985, under the rulers of Park Chung-Hee (1961-1979) and Chun Doo-Hwan (1980-1988) is largely responsible for setting the foundation for the eminence experienced by South Korea today. Special emphasis would be placed on the rule of Park given the fact that policies and strategies championed during his regime set the tone for future practices. The researcher has examined a wide range of factors that (it is contended) accounted for South Korea growing rich. These factors range from having a militant, visionary and entrepreneurial leader to embracing appropriate country-specific institutions.

It is hoped that the contents of this paper would not only serve as an information bank as it attempts to give accounts for why South Korea grew rich, but that it would serve to enlighten the reader on the possibilities of having divergent paths to 'development'. Key actors/events on the domestic and international stage played and still play a critical role in determining if this development is sustainable. The researcher wishes to caution that while all attempts have been made to ensure accuracy in the statistical data and stylized facts presented, the diversity of authors and sources from which the information was derived may result in a slight distortion of the data.

## Rationale for State Intervention

South Korea's leader from 1961-1979, Park Chung-Hee, unlike preceding rulers from the aristocratic Yi Dynasty (1392-1910), was from an impoverished peasant family. It could only be speculated that being denied the relative affluence of his predecessors could have been propitious to his determination to unremittingly strive towards having a thriving South Korean state. What is, however, less a moot point is that given Korea's *late (*twentieth century) *industrialisation,* state intervention was necessary to stimulate growth. Moreover, Korea's weak institutions, recent engagement in the Korean War, and situation in the Cold War, conferred on the state a great responsibility in ensuring that industrialisation through learning was successful, and that development was sustainable. The practice of state intervention to further industrialisation was not unique to South Korea and was a reversal of the negative trend of opening markets during colonization, which proved detrimental to local industries. The term 'state' would therefore be conceived in the mode of Weber as "a set of organisations, including the administrative and legislative order, with the authority to make and implement binding rules over all people and all action in a particular territory, using force if necessary."[1]

**Industrialisation by Learning**

Whereas innovators maximised the use of the corporate office in an effort to develop and market new technology, the operations of South Korea, in the initial stages of industrialisation were centered on the shop floor, presided over by managers. As revealed by Amsden, "the shop floor tends to be the strategic focus of firms that compete on the basis of borrowed technology…it is here that borrowed technology is first made operational and later optimized."[2] The application of science to production, especially based on technical assistance and foreign licenses, resulted in greater economic returns, and was crucial to South Korea growing rich. Entry by multinational organisations was restricted as a means of maintaining its independence. South Korea also avoided 'debt for equity traps' when undergoing International Monetary Fund (IMF) stabilization policies in response to the debt crisis in the 1970s. Though not an attempt to attribute causation to the link between South Korea's efforts to avoid dependency on external powers and its fast rebound after the debt crisis, it should be noted that "by 1985, the country had lowered its current account deficit to just 1.1% and then moved to a surplus of 2.8% of GNI in 1986…"[3]

While industrialization through learning has many advantages, ranging from borrowing initial expertise to developing patterns of organisation without significant (if any) invention costs, there are other important implications that must be considered. According to Levy, "latecomers face problems of scale;…problems of conversion of resources, materials, skills…from one use to another; and problems of disappointment…"[4] Given these and other challenges that could impinge on a latecomer's development, it is contended that the prevalence of suitable institutions was one of the effective means of bridging this gap.

**Institutions, the State, Private Sector and International Context**

Korea's choice of institutions was very instrumental in stimulating future growth through country-specific strategies and policies. The term 'institutions' is used here to refer to rules of structured social interaction "that act as a substitute for missing markets in an environment of pervasive risks and severe transaction and information costs that individuals and groups face in their economic transactions with others".[5] Korea's leadership did not fall prey to the belief that institutional reform had to be grand in its initial stages of employment as reflected in its gradual and objective-oriented reforms. As succinctly posited by Harvard development economist Dani Rodrik:

We need to distinguish between *stimulating* economic growth and *sustaining* it. Solid institutions are much more important for the latter than the former. Once growth is set into motion it becomes easier to maintain a virtuous cycle with high growth and institutional transformation feeding on each other.[6]

Hence, whereas China's initial focus in 1978 was on the absence of market-oriented incentives, one of the major constraints faced by South Korea's military government led by Park Chung-Hee in 1961 was the large gap between social and private return to investment.[7] It is within this context that the modern industrial enterprise in the form of the *chaebol* or diversified business groups (for example, Samsung and Lucky-Goldstar) would be examined.

The operations of the *chaebol* lend credence to the view that economies of scale may not be sufficient to explain integration into lower end foreign markets.[8] The *chaebol*'s large size and diversified products minimised the difficulties faced by new entrants. Additionally, government targets, and incentives (through tax exemptions, low-interest policy loans, protection of oligopoly/monopoly rights, etc) resulted in these enterprises experiencing unprecedented growth.[9] By the mid-1980s, eight out of the ten largest *chaebol* owned at least one non-banking financial institution –i.e., insurance, securities, and short-term finance companies and by 1987, the share of sales of the five largest *chaebol* accounted for 75.2 percent of the Gross Domestic Product in manufacturing.[10]

The success of the *chaebol* did not only have economic repercussions, but also affected other sections of Korean society. By its practice of creating price distortions and its active support of the private sector, the state simultaneously and perhaps unconsciously undermined its own autonomy. This process, referred to by Eun Mee Kim as the 'contradiction of autonomy', saw capitalist classes and other groups in society using the power that they had derived from economic success to assert their independence and insist on a reduction of government intervention in the economy. Pressure on the state was not only internal but also came from the Reagan, Nixon and Kennedy administrations based on the fact that a relatively developed private sector no longer justified the need for state intervention. It can be contended that given Korea's unique geopolitical position within the context of the Cold War, Western interference actually worked in its favour and helped to bolster its economy; easy access to U.S markets helped to re-enforce South Korea's national strategy favouring the promotion of highly competitive exports that were a reflection of sophisticated skills and technology. During the 1960s, cotton spinning and weaving were the country's leading sectors. Not only were exports given favourable access to U.S markets, but aid, military assistance and military contracts (especially after the US-Vietnamese War) were very forthcoming which helped to deal with balance of payment problems resulting at times from implemented industrialisation programmes.[11] As revealed by Donald Gregg – CIA Chief of Station based in South Korea from 1973-1975 – the largest single source of foreign exchange earnings in the 1960s came from the Vietnam War.[12]

**Rural Development and Land Reforms**

What the state may not have anticipated was that stringent efforts to ensure a more thriving economy would have resulted in widening the gap between the rural and urban areas – thus posing a potential threat to previous progress undergone. Park's almost exclusive focus on industrial and export-oriented trade policies via the 1962 Five Year Economic Development Plan was a significant boost to the economy, raking in a fairly impressive GNP of US$257 by 1970. On the other hand, the rural area was plagued by spiraling poverty and deteriorating social and economic conditions, leading to disenchantment with local leaders. Within this context, the state launched its 1970s modernization community-based rural development strategy – *Saemaul Undong*– which sought to reorient development to ensure that there was symmetry between the rural and urban areas. *Sae* (meaning progressive renewal based on past experiences) dealt with modernization goals, whereas *Maul* (meaning regional and social communities) dealt with maintaining traditional values.[13] Hence, building on community-oriented values and the solidarity that ensued, the state focused especially on rural infrastructure improvement, income generation and capacity building, and attitudinal change. Highlights of this strategy included building roads, introducing new agricultural technologies and improved crop varieties, making education readily available to locals, and instilling in them values such as diligence, self-help and cooperation. A very significant underpinning of the success of Saemaul Undong was the enactment of the land reform law in 1950. Tenant farming was prohibited and ownership of land was restricted to a maximum of three hectares per person. Japanese-owned land amounting to 240,000 hectares was conferred upon Korean peasants. Also, under the land-to-teller scheme, land was transferred from large domestic landowners to their tenants, while original owners were compensated.[14] Hence, in 1970, "94 per cent of rural households held farms smaller than two hectares, while 64 per cent held less than one hectare."[15] A more equitable social and political structure was very instrumental in the increased competition among villages, stimulated by performance-based incentives by the government. By 1976, household income accruing from agriculture was higher than urban household income. During the period 1976-1979, the gap between the rural and urban areas had significantly declined, living standards had improved and GNP had doubled to US $1394. Despite the fact that the Saemaul Undong project had been taken over by the private sector in the early 1980's, per capita GNP had reached US$4934 by 1979.[16]

**Education and Quality of Labour**

Unlike capital-intensive economies, South Korea's industrialisation was more labour intensive. For Sugihara, "the best sign of labour-intensive industrialisation is when a country exports labour-intensive goods and imports capital-intensive ones at the initial stage of industrialisation".[17] South Korea's cheap and internationally competitive labour gave it a comparative advantage and facilitated its breaking into regional and international markets as it exported competitive labour-intensive industrial goods and imported capital intensive goods. As revealed by Lucas (Jr.), 37% of Korean GDP was generated in agriculture and 20% in industry in 1960. South Korea witnessed a remarkable increase in its GDP from 1960 to 1988 as it grew at 6.2% a year, which is consistent with living standards being doubled every eleven years.[18] The driving force behind South Korea's labour intensive industrialisation was the great emphasis that the state placed on the *quality* of labour that was produced. In an effort to ensure international competitiveness, a highly educated workforce (where primary education was especially emphasised) was nurtured, which resulted in the empowerment of trained salaried engineers, as well as the gradual emergence of salaried management. Findings from Bello and Rosenfeld (1990) reveal that "the share of employees with a high school education or beyond among the skilled and semiskilled workers in the machinery sector rose from 17.6% in 1967 to 59.3% in 1984."[19] Increased wages in the 1980s served as an incentive for workers to produce more and for managers to acquire more technological capability especially after repressive wage policies in the 1960s. Other techniques used by the state to raise the level of productivity included but were not limited to: providing industrial licenses after entrance into risky industries, penalizing poor performers and rewarding good ones, setting export targets, minimizing monopoly power through price controls and having stringent controls on capital flight.[20]

The ripple effect from having an educated workforce was that unionism became more prevalent among the workers, especially in large factory settings. Strikes against labour repression by students, church-based groups, the educated work force and other interest groups, amounted to 3,617 cases in 1987 – a more than 1200 percent increase in just one year.[21] The educated work force also sought to ensure that the state was kept in check and that its national strategy of favouring exports did not further impede or impair broader human, social and economic ideals. In response to the disgruntled private sector and given the need for the state to juxtapose international competitiveness with human and social development, initiatives by the state included the Chun Doo-Hwan regime's (1980-1988) adoption of the 1979 Economic Stabilization Measures as the primary economic policy. In addition, the Fifth Five-Year Economic and Social Development Plan (1982-1986) was adopted which included a new focus on welfare and foreign policy. While there were obvious challenges to the relent of state control, the period c.1960-c.1985 witnessed a metamorphosing of the state from one which was seen as a 'rational and industry policy-oriented' comprehensive developmental state to a more 'market- rational, regulatory and foreign policy-oriented' limited developmental state which boded well for the economic, social and political improvements that it brought to the Korean state and its inhabitants. [22]

**Conclusion**

Korea is a now a rich multi-party democracy, with a booming economy thriving on electronic products, machinery and transport equipment. All factors being considered, it is the view of the researcher that having a visionary, authoritarian and entrepreneurial leader is the premier reason for South Korea growing rich. One cannot deny the fact that alpha technology (such as machines, equipment and designs), beta technology (such as the chaebol, an educated labour force and land reform), and many other factors did help in stimulating growth. However, these practices and policies had to be driven by someone – someone with vision and a passion for development; someone who was entrepreneurial enough to harness subsidies to the principle of reciprocity; someone who was strategic enough to pursue country-specific polices even amidst Western pressures and even while benefitting from their financial assistance; someone who was stringent enough to discipline underperforming firms; someone who was flexible enough to concede (however reluctantly) to eventually improve working conditions and to gradually open up the economy to rising business and social classes. This iconic figure was Park Chung-Hee, under whose regime there was unparalleled growth and who paradoxically, through authoritarian policies, ushered in a wave of democratization. This is no attempt to blindly eulogize Park, for authoritarian practices such as Park's Yushin Constitution System (1972-1979) and his relations with other nations as, for example, exemplified by the USS Pueblo Incident, left much to be desired. However, had free elections been embraced in Korea, there would have been no guarantee of Park as a leader and Korea may have never been able to benefit from all the initiatives that he would have introduced.

On the other hand, the researcher believes that there is a high probability that the existence of trade union rights would have led to a faster growth of Korea's economy. This is due to the fact that better working conditions at an earlier stage may have led to greater solidarity among workers, a more responsive government and ultimately to increased growth. It could be argued that a similar logic applies to a more equitable distribution of income culminating in greater productivity. Some economists have argued that had Korea pursued liberalization policies, it would have grown faster. In contrast, analysts like Ha-Joon Chang have argued that it was liberalization that was the cause of the

1997 Asian financial crisis.[23] What is undeniable is that without firm economic and institutional foundations, Korea would not have recovered so quickly from this crisis. Moreover history lends credence to the view that liberalization may not always bode well for growth, as was witnessed by many countries with a history of colonial occupation.

In 1974, Donald Gregg asked Park Chung-Hee about whether he ever compared himself to Mustafa Kemal Ataturk – founder of modern Turkey. Park's response was that he did not know much about Kemal Pasha, but that he wanted to do for Korea what Kemal did for Turkey – make it economically strong and militarily secure.[24] From all accounts, it seems that especially as relates to the economy, Park's wish has been granted.

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